Industry Canada Industrie Canada

Micro-Economic Monitor

First Quarter 2003

Micro-Economic Analysis Directorate, Policy Sector, Industry Canada
This document is based on data up to June 17 and is also available on the Internet at
http://strategis.ic.gc.ca/sc_ecnmy/mera/engdoc/04.html

Canada

103-05642/

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Overview

Real GDP growth increased in the first quarter

Real Gross Domestic Product (GDP) grew 2.4% (annualized) in the first quarter following an increase of 1.6% in the fourth quarter of 2002. As was the case in the fourth quarter, domestic demand provided the bulk of support.

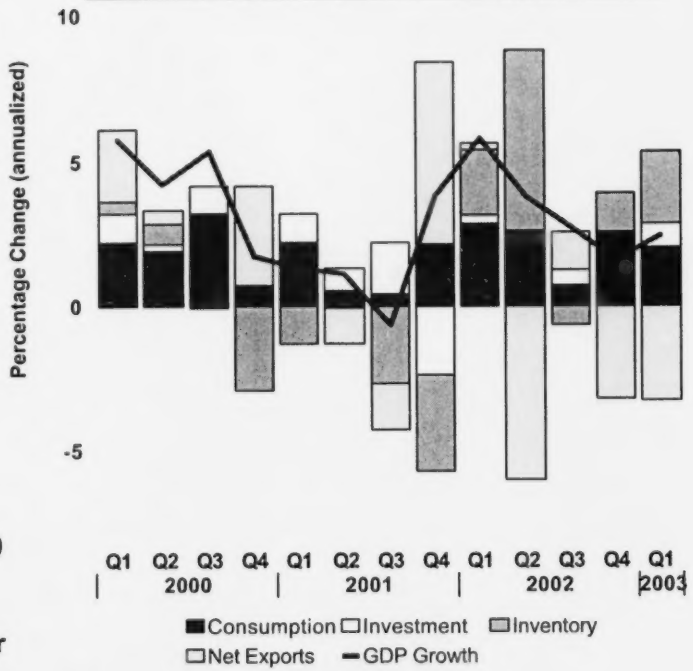
Consumption, residential investment and stronger than expected inventory accumulation were the main contributors while real exports and non-residential investment declined. Investment in Machinery and Equipment increased following two consecutive quarterly declines.

Corporate profits were up for the fifth consecutive quarter. However, real disposable income grew less reflecting slower job creation and higher inflation during the first quarter.

The manufacturing sector remained weak, growing a meagre 0.4% in the first quarter. It has shedded 41 000 jobs in the first five months of 2003.

In the United States (U.S.), real GDP was up 1.9%, after growing 1.4% in the fourth quarter. The U.S. labour market remained weak as 130 000 jobs have been lost from January to May. The unemployment rate increased to 6.1% in May.

Contributions to Quarterly Real GDP Growth* (Annualized)



* For the purpose of simplification and given their relative stability over time, contributions from government expenditures are not shown.

Source: Statistics Canada

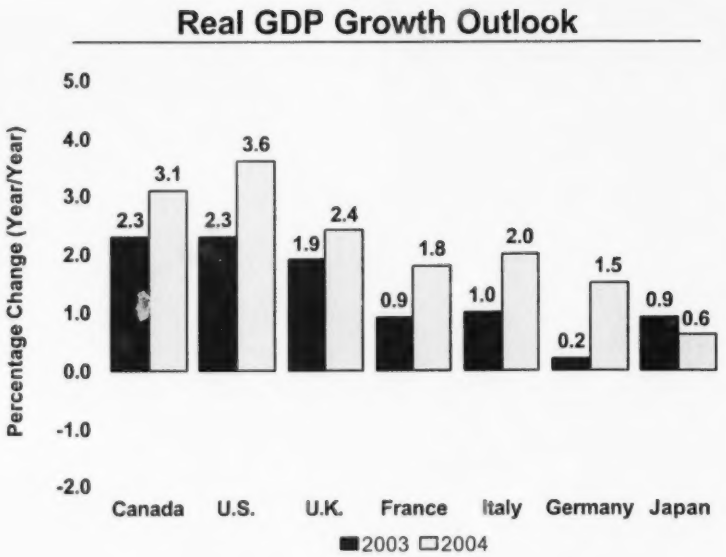
Growth is expected to slow in the second quarter

The severe acute respiratory syndrome (SARS), Mad Cow Disease, rise of the loonie and sputtering U.S. growth are expected to have a negative impact on Canada's growth prospects in the second quarter and possibly the third quarter.

As a result, analysts have scaled down their growth forecast for Canada in 2003 from 3.2% in January to 2.3%.

In the meantime, labour productivity in the business sector declined for a third consecutive quarter (-0.7%) while U.S. labour productivity was up 2.5% in the first quarter.

With the dollar approaching 75 cents, inflation coming down and growth weakening, the Bank of Canada kept its overnight rate at 3.25% in early June and rate hikes appear unlikely in the near future.



Source: Consensus Forecasts (U.K.), June 2003
Consensus Economics Inc.

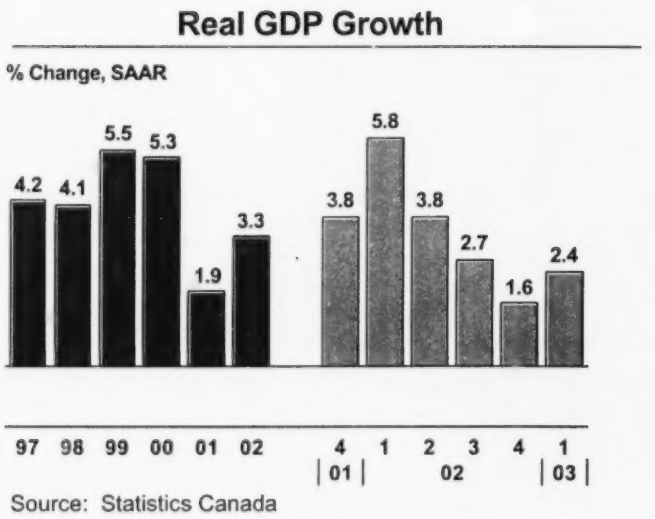
Domestic Scene

Real Economic Activity

The economy picked up somewhat in the first quarter...

Real GDP in the first quarter increased at an annualized rate of 2.4%, up from 1.6% in the fourth quarter.

- **Higher domestic consumer spending, residential investment, and inventories offset a slowdown in Canada's export performance.**



Source: Statistics Canada

U.S. real GDP grew 1.9% in the first quarter, up from 1.4% growth in the fourth quarter, supported by domestic spending on non-durable goods, residential investment, and lower imports.

...supported by consumer spending growth...

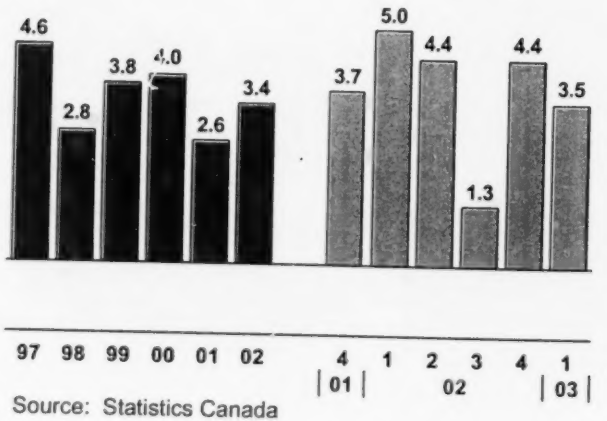
After a 4.4% increase in the fourth quarter of 2002, consumer spending slowed to 3.5% in the first quarter of this year.

- **Consumer spending on durables declined as demand for motor vehicles weakened, while expenditures on non-durable (+5.2%) and semi-durable goods (+5.5%) such as clothing, food, and electricity experienced higher growth.**

- **Spending on services increased 3.7% compared to 2.2% in the fourth quarter.**

Real Consumer Expenditure Growth

% Change, SAAR



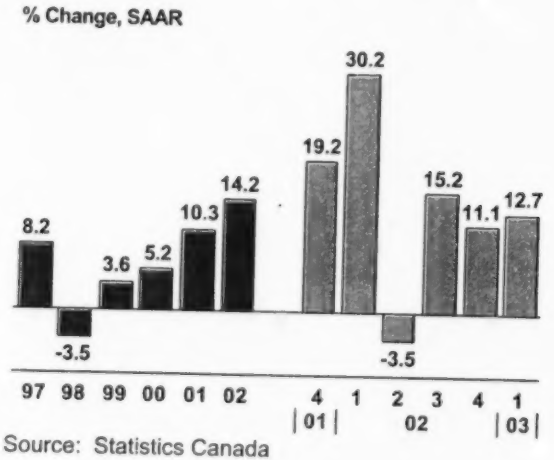
Source: Statistics Canada

...a healthy housing market...

Residential investment rose by 12.7% in the first quarter after rising 11.1% in the fourth quarter.

- **Housing starts soared in the first quarter, averaging 222,300 units. February saw 254,900 housing starts, a 16-year monthly high.**

Real Residential Construction Growth



Source: Statistics Canada

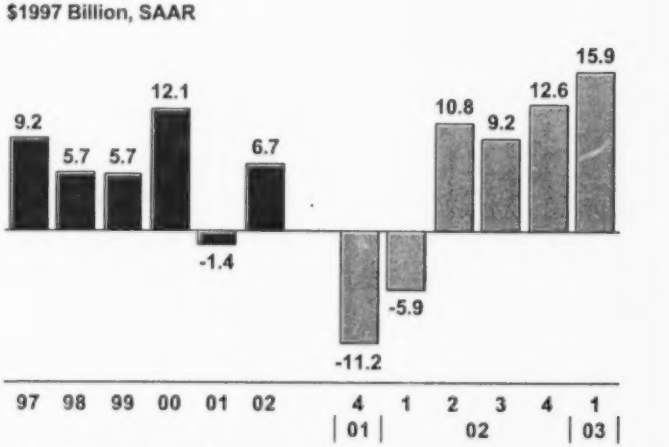
...and an increase of inventory investment

Non-farm inventory investment rose to $15.9 billion in the first quarter, up from $12.6 billion in the fourth quarter.

- **Motor vehicles and forestry products made a substantial contribution to rising inventories.**

Despite the build-up of inventories, the latest business conditions survey indicated that the majority of manufacturers remain satisfied with their inventory levels. The inventory-to-sale ratio increased to around 0.71 from 0.67.

Non-farm Business Inventory Investment

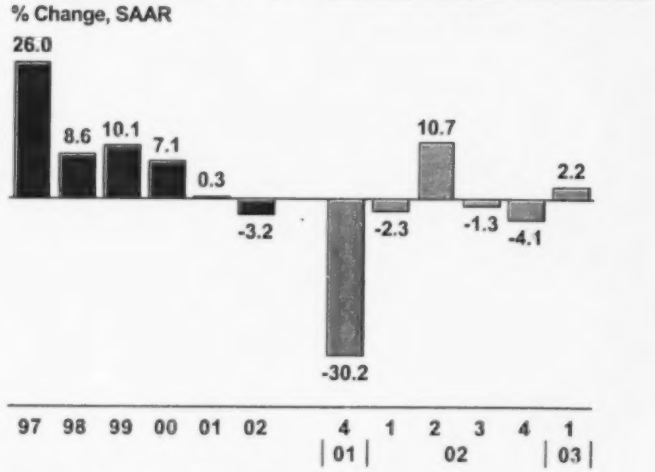


Source: Statistics Canada

Investment in Machinery and Equipment rebounded...

Business investment in Machinery and Equipment (M&E) rose 2.2% in the first quarter, following two quarters of decline.

Real Machinery & Equipment Investment



Source: Statistics Canada

...but exports fell further...

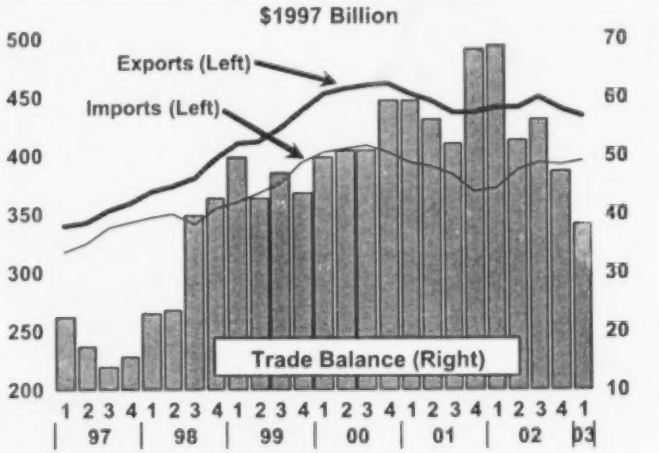
Real exports declined 5.7% in the first quarter, following a 8.7% drop in the fourth quarter.

- **Weak demand in the U.S. for machinery and equipment, and industrial goods and materials are the main contributing factors.**

Imports rose 2.6%, up from 1.4% growth in the previous quarter, leading to a lower trade surplus.

- **Agricultural and fish products as well as consumer goods were behind the rise in imports while automotive products imports remained flat.**

Real Exports and Imports of Goods & Services

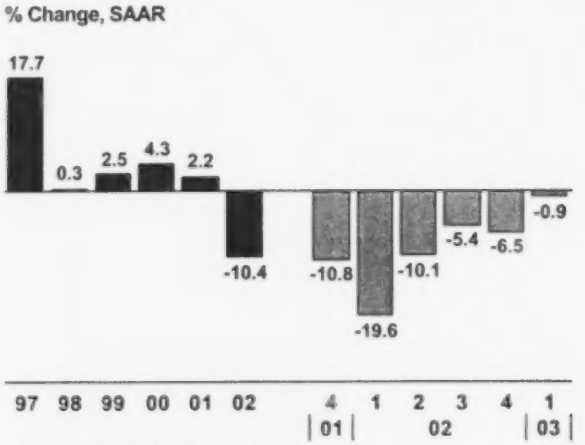


Source: Statistics Canada

...as did non-residential construction

Non-residential construction continued to weaken, albeit at a slower rate, in the first quarter, marking seven consecutive quarters of decline.

Real Non-residential Construction Growth



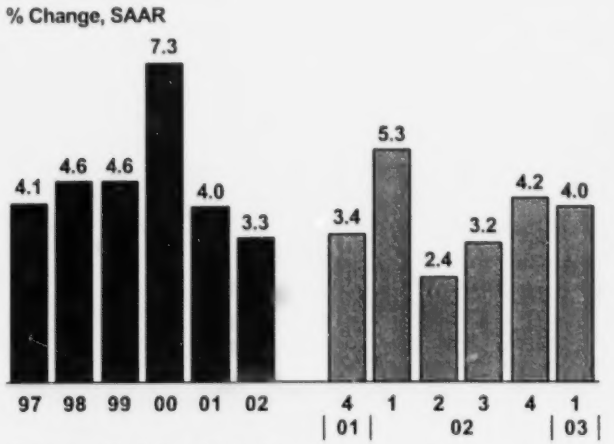
Source: Statistics Canada

Domestic Scene

Income Side

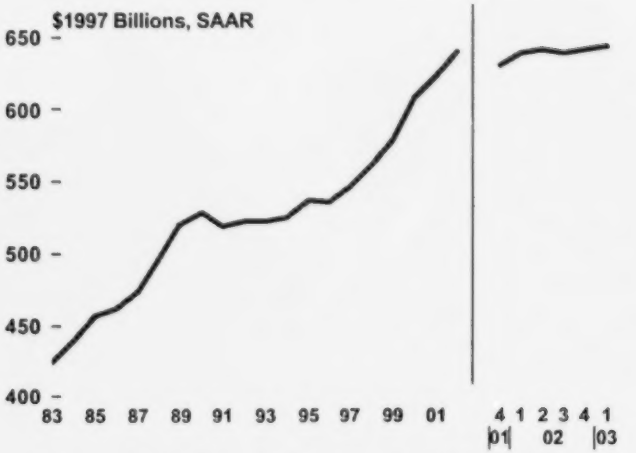
Personal income growth remained strong in the first quarter...

Growth in Personal Income



Source: Statistics Canada

Real Personal Disposable Income*



*Converted to real dollars using the chain price index for personal expenditure on goods and services.
Source: Statistics Canada and Industry Canada

Personal income rose at an annual rate of 4.0% in the first quarter, slightly less than the 4.2% growth of the previous quarter, but nonetheless the seventh straight quarter of growth. The slight deceleration in personal income reflected slower growth in labour income and government transfers, offsetting notable gains in unincorporated business income, corporate and non-resident transfers.

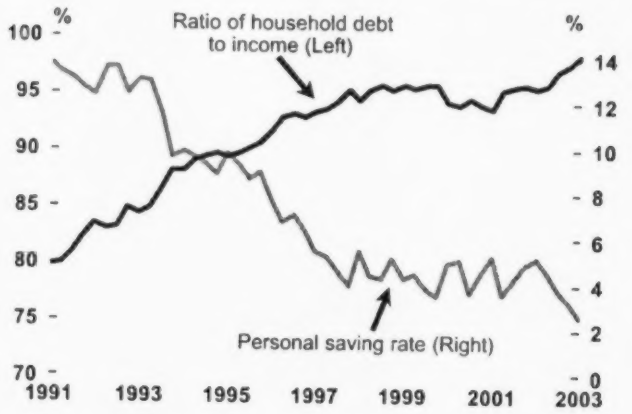
Personal disposable income rose by 3.9%, up from growth of 3.7% in the fourth quarter. However, real personal disposable income growth slowed to 0.9% from 1.8% in the fourth quarter.

...but households reduced their saving rate

With consumer expenditure growing increasingly faster than personal disposable income, the personal savings rate declined for the fourth straight quarter going from 3.2% to 2.6% in the first quarter.

The household debt-to-income ratio experienced its fourth consecutive increase, rising 0.7 percentage point to 98.3%, as consumer and mortgage debt grew faster than personal disposable income.

Personal Debt and Savings Rate



Source: Statistics Canada

Corporate profits continued to increase

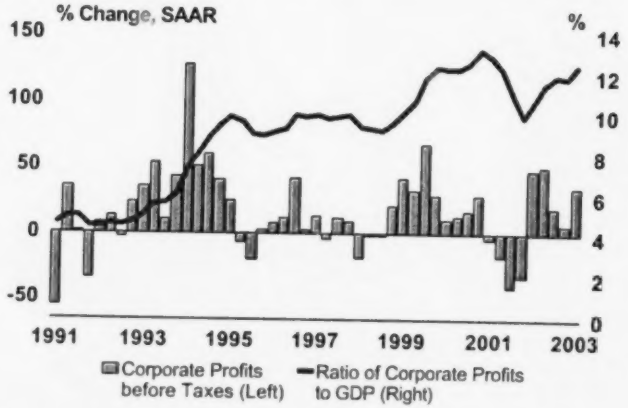
Corporate profits rose sharply (+34.0% annualized) in the first quarter, surpassing the record set in the fourth quarter of 2000. This marked the fifth consecutive quarterly increase.

- **First quarter gains were dominated by soaring profits in the oil & gas extraction industry as crude oil prices, driven largely by the recent turmoil in Iraq, supply disruptions in Venezuela, and a colder North American winter, reached levels not seen since the 1991 Gulf War.**

- **Manufacturing also posted gains, led by manufacturers of petroleum and coal products, electronics and computers.**

The profit share of GDP also posted its fifth consecutive increase, rising to 12.5% in the first quarter from 11.9% in the previous quarter.

Corporate Profits



Source: Statistics Canada

Domestic Scene

Labour Situation

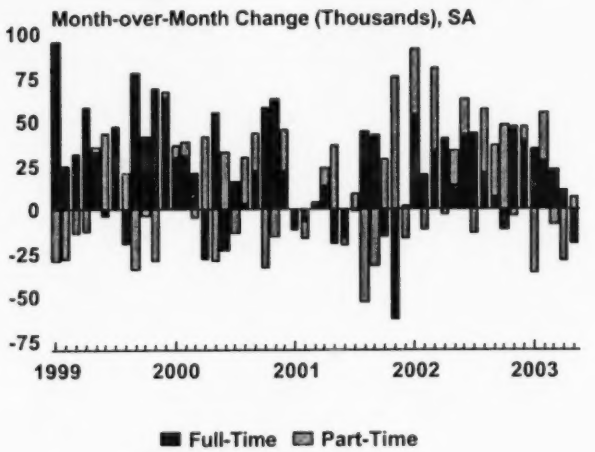
The labour market weakened in recent months...

In May, employment edged down by 13,000, all full-time jobs. This was the second consecutive monthly decrease in employment. So far in 2003, 35,000 jobs have been created, compared to 249,000 in the same period in 2002, not enough to keep pace with growth in the labour force.

- **Full-time jobs (-20,000) more than accounted for all job losses in May, as part-time jobs (+7,000) increased. However, 76,000 full-time jobs have been created since the beginning of 2003.**

The recent deterioration of the employment performance is largely due to a weak economy in the U.S. and a stronger Canadian dollar. The data for May was collected prior to new developments related to SARS and the "Mad Cow" (BSE) disease. Their impact should be captured by the data for June.

Employment Growth



Source: Statistics Canada

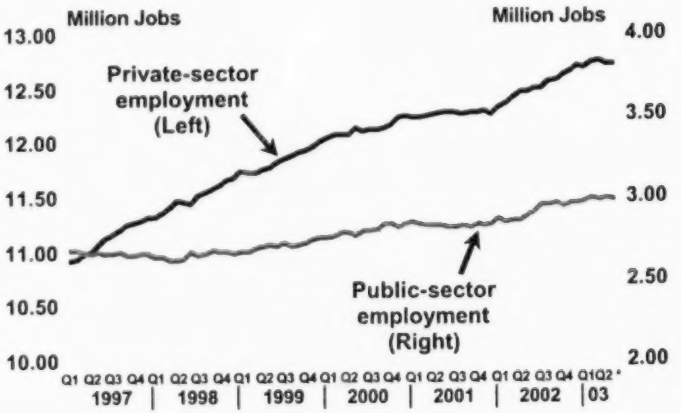
U.S. employment conditions continued to be weak in May. Non-farm employment decreased by 17,000. The largest loss of jobs was posted by manufacturing (-53,000), while employment in the Service sector (+12,000) edged up. The unemployment rate was up 0.1 percentage point to 6.1% in May.

...with a loss of jobs in the public sector partially offset by a small gain in the private sector

Led by a decrease in May's public sector employment (-15,000), paid employment (-12,000) fell, as private sector employment (+3,000) edged up. However, the public sector accounts for 19,000 of the 28,000 paid employment job gains in the first five months of 2003, while the private sector experienced a gain of 9,000 jobs.

Self-employment was down 2,000 in May, but has accounted for the creation of 7,000 jobs since the beginning of 2003.

Employment: Private vs. Public



*Data for 2003Q2 includes April and May only.

Source: Statistics Canada

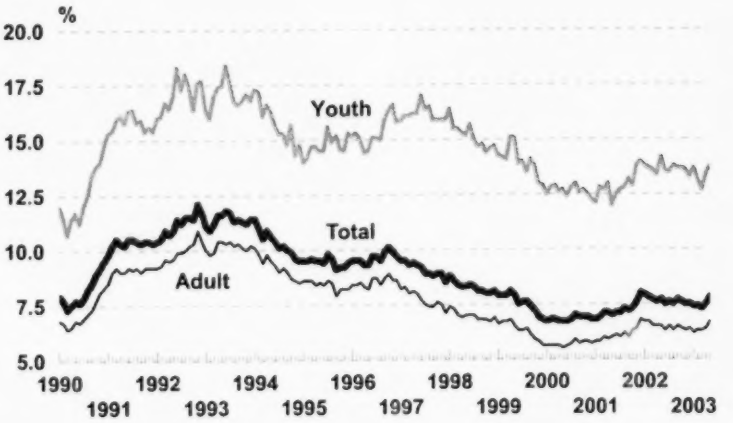
An increase in the labour force combined with the loss of jobs pushed the unemployment rate up to 7.8%.

The unemployment rate rose by 0.3 percentage point to 7.8% in May, down only 0.2 percentage point from its peak of 8.0% in December 2001.

- **Good economic conditions have encouraged more Canadians to enter the labour force, partially offsetting the downward pressure of job creation on the unemployment rate. Recent job losses have aggravated the upward pressure of labour force growth on the unemployment rate. In the meantime, the participation rate continues to be very high (67.5%) by historical standards.**

Youth lost 3,000 jobs in May, leaving job gains for the first five months of 2003 at 2,000 part-time jobs. The youth unemployment rate rose 0.4 percentage point to 13.8%. The adult unemployment rate was up by 0.3 percentage point to 6.7%.

Unemployment Rates



Source: Statistics Canada

Only half of the provinces posted job gains in May...

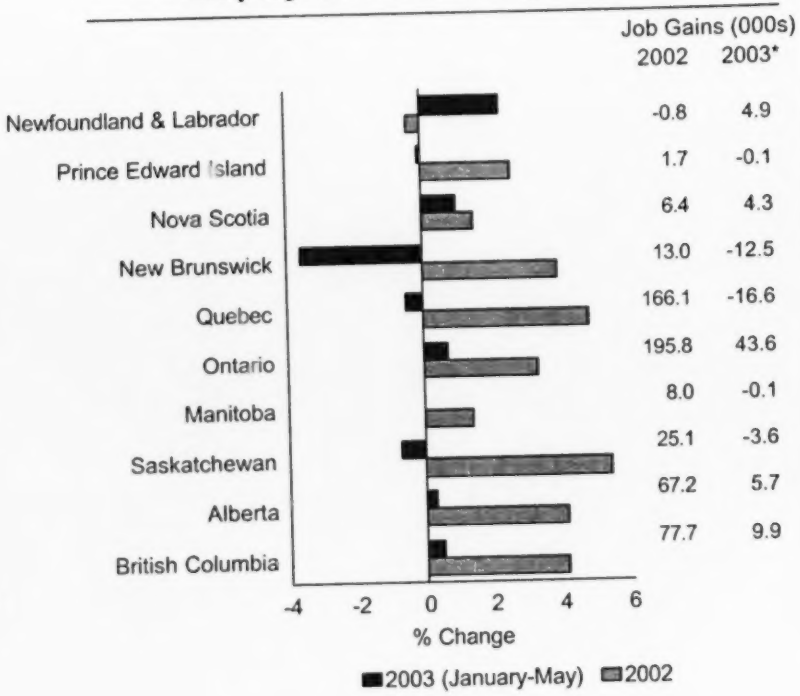
Alberta posted the largest job gains in May (+13,000). Services more than accounted for the overall growth, led by educational services and health care & social assistance. Manitoba, Saskatchewan, Newfoundland and P.E.I. posted small increases.

All other provinces posted job losses, led by Quebec (-9,000), New Brunswick (-9,000) and B.C. (-8,000).

Quebec and Ontario accounted for the overall loss of jobs in manufacturing since the beginning of 2003.

All provinces, except Newfoundland (-1,000), posted sizeable employment growth in 2002. So far this year the largest job gains have been in Ontario and B.C., while the largest job losses have been Quebec and New Brunswick.

Employment Growth by Province



*Figures for 2003 are year-to-date (January-May)
Source: Statistics Canada

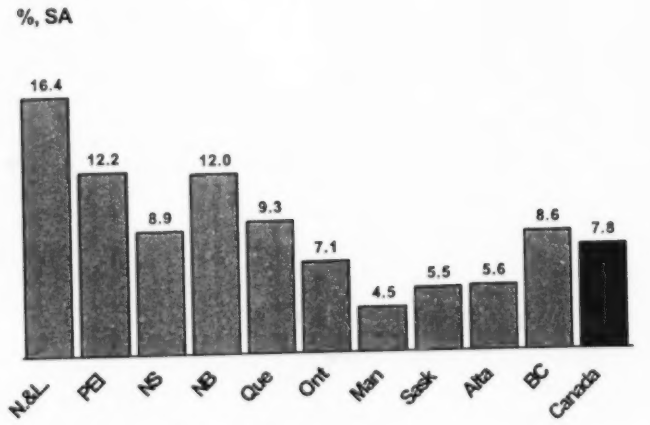
...and the unemployment rate increased in all of the provinces, except Newfoundland and P.E.I.

In May, job losses pushed up the unemployment rate in half the provinces, led by New Brunswick (+1.7 percentage points to 12.0%) and B.C. (+0.5 of a percentage point to 8.6%). Smaller rate increases were posted by Nova Scotia, Quebec and Ontario.

The increase in the labour force was largely responsible for the increase of the unemployment rate in Manitoba (+0.2 to 4.5%), Saskatchewan (+0.1 to 5.5%) and Alberta (+0.1 to 5.6%).

Job gains and decreases in the labour force pushed the unemployment rate down in Newfoundland (-0.9 to 16.4%) and P.E.I. (-0.5 to 12.2%).

Unemployment Rates: May 2003



Source: Statistics Canada

Domestic Scene

Sectoral Overview

Uneven growth in the goods producing sector

Output has increased by 3.2%annualized in the goods producing industries during the first quarter.

Manufacturing, which accounts for more than half of the Goods producing sector, saw its output grow by a minuscule 0.4%.

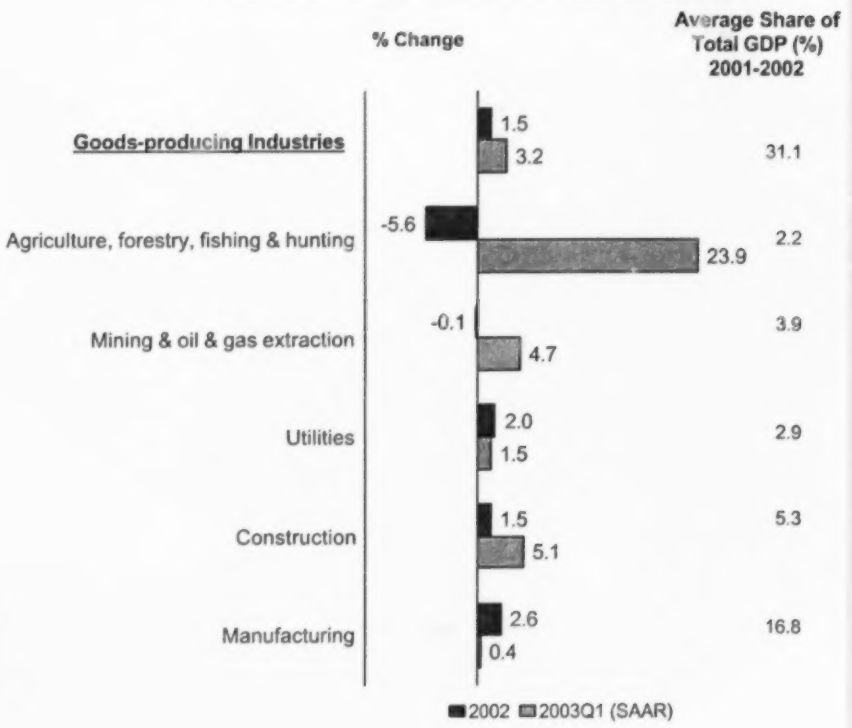
- **Mid-quarter losses were recouped at the end, leaving the sector's output at a level slightly higher than in January.**

Fear of shortages (due to the apprehension of a conflict in Iraq) fuelled growth in the Mining & Oil & Gas Extraction sector. The sector's performance ended on a high note, with gains of 8.7% (annualized) in March, and 4.7% for the quarter.

Continued momentum in New Homebuilding allowed the Construction sector to post a 5.3% gain this quarter.

The slow recovery of the U.S. economy and the rising dollar will probably limit growth in the manufacturing sector in the near term.

Real GDP Growth by Industry: 2003Q1



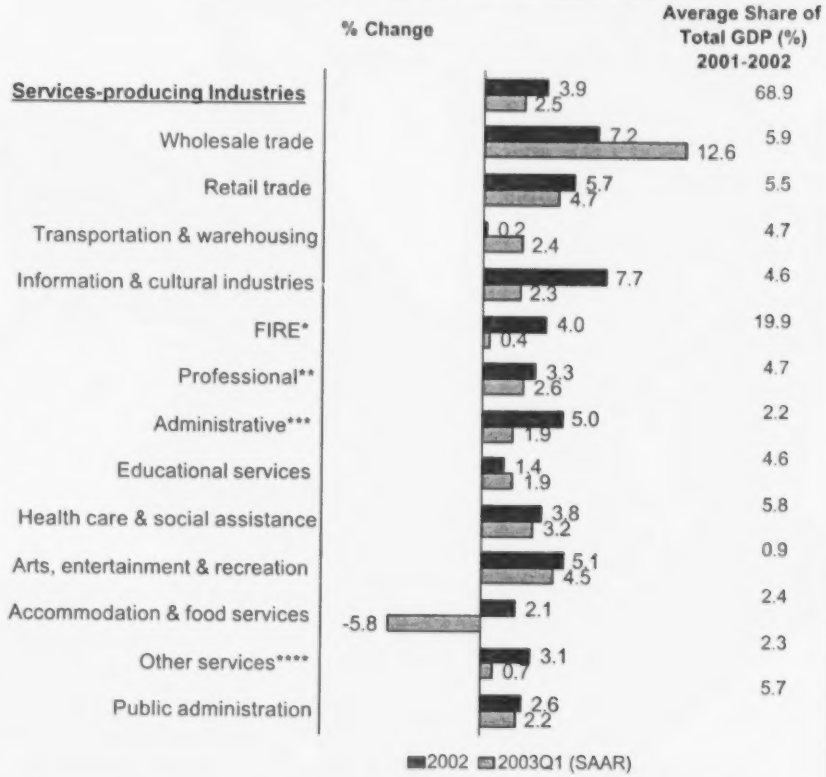
Source: Statistics Canada

Trade boosted growth in the service sector

First quarter gains in the Service producing industries stood at 2.5%. This is similar to the gain observed during the fourth quarter.

- **With the exception of Accommodation & Food Services, all sectors posted gains during the first quarter.**
- **Improved labour income and low cost of borrowing helped the Trade sector post the highest increase. Wholesale trade led the way with gains of 12.6% while Retail trade posted a 4.7% gain.**
- **The Health Care and Social Assistance sector posted strong gains (3.2%). However, this gain is the lowest since the fourth quarter of 2001.**

Real GDP Growth by Industry: 2003Q1



* Includes Finance & insurance, real estate & renting & leasing & management of companies & enterprises
** Includes Professional, scientific & technical services
*** Includes Administrative & support, waste management & remediation services
**** except public administration

Source: Statistics Canada

Corporate operating profits continued to rise in the first quarter

Profits surged 10.6% in the first quarter, fuelled by soaring energy prices. This was the fifth consecutive quarterly increase, after slumping throughout 2001.

- **Profits in the Mineral Fuels sector jumped 57.1%, as oil prices soared to levels not seen since the Gulf War in 1991.**

- **Profits in the Manufacturing sector rose by 4.6%, following a decrease of 2.2% in the fourth quarter. Nonetheless, only half of the manufacturing industries posted gains, led by manufacturers of petroleum & coal products and electronics & computers.**

Profits in the Financial sector increased by 7.7% in the first quarter, to reach their highest level since the third quarter of 2001.

- **Higher profits in Depository Credit Intermediation (mainly chartered banks) accounted for most of the increase.**

- **Funds and Other Financial vehicles reported losses for a fourth consecutive quarter.**

Corporate Operating Profits, 2003Q1

	2003Q1 Level ($M)	Difference 02Q4-03Q1 ($M)	02Q4-03Q1 (%)	02Q1-03Q1 (%)
Total - All Industries	**42,929**	**4,126**	**10.6**	**26.6**
Total Non-Financial	**33,691**	**3,468**	**11.5**	**30.3**
Agriculture, forestry, fishing & hunting	470	30	6.8	-8.2
Mineral fuels	6,242	2,268	57.1	150.6
Mining except mineral fuels	41	-158	-79.4	-88.2
Utilities	799	94	13.3	-12.0
Construction	970	155	19.0	2.3
Manufacturing industries	10,421	457	4.6	20.1
Wholesale trade industries	2,995	372	14.2	28.1
Retail trade industries	2,466	128	5.5	30.2
Transportation and warehousing	1,294	-132	-9.3	26.0
Information and cultural industries	1,834	102	5.9	-3.6
Real estate, rental and leasing	3,356	50	1.5	32.4
Professional/Scientific	761	44	6.1	15.8
Management of companies	2,987	-3,254	-52.1	0.7
Other services to business	474	27	6.0	27.4
Education services	-25	-2	8.7	-13.8
Health care and social assistance	556	-25	-4.3	18.6
Arts, entertainment and recreation	145	25	20.8	20.8
Accommodation and food services	421	-24	-5.4	-18.1
Other services	473	58	14.0	159.9
Total Financial	**9,238**	**658**	**7.7**	**14.6**
Depository credit intermediation	4,147	829	25.0	65.0
Non-depository credit intermediation	1,370	-55	-3.9	1.7
Insurers	1,259	36	2.9	-1.9
Funds and other financial vehicles	-1,649	-262	18.9	-189.3
Other financial intermediaries	2,462	-152	-5.8	-15.5

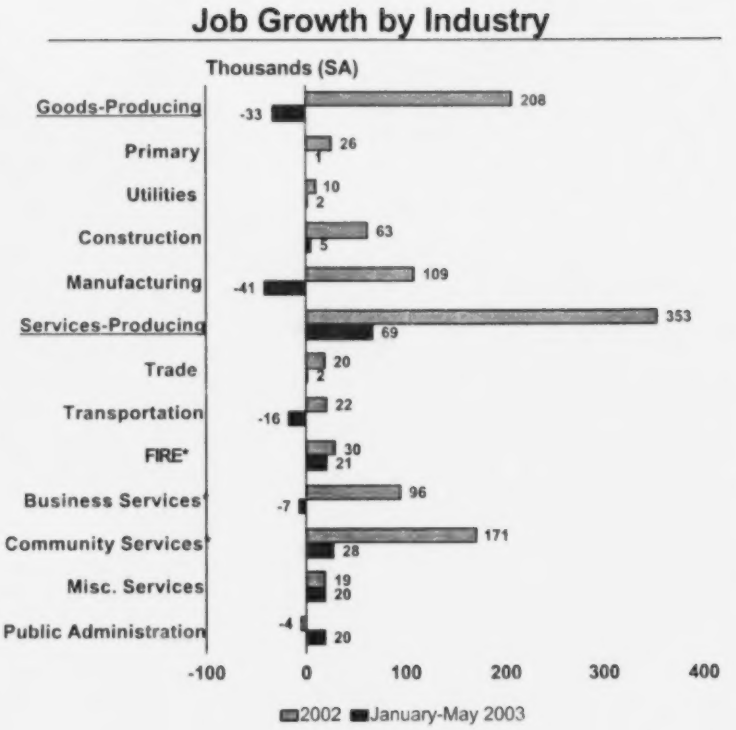
Source: Statistics Canada

Employment in the Service sector falters in May

Employment in the Service sector decreased by 15,000 jobs in May. The largest reductions in May were in community services, finance, insurance, real estate & leasing and public administration.

- **In 2003, employment growth in the service sector has been only 69,000 and much weaker than in 2002 (when 353,000 jobs were created). Not only have most sectors not performed as well, but business services and transportation have actually lost jobs.**

Employment in the Goods sector edged up by 2,000 in May. In the first five months of 2003, this sector, however, lost 33,000 jobs. In May, manufacturing employment fell by 3,000 bringing total job losses since the start of 2003 to 41,000. A weak U.S. economy and strengthening Canadian dollar help explain this decline.

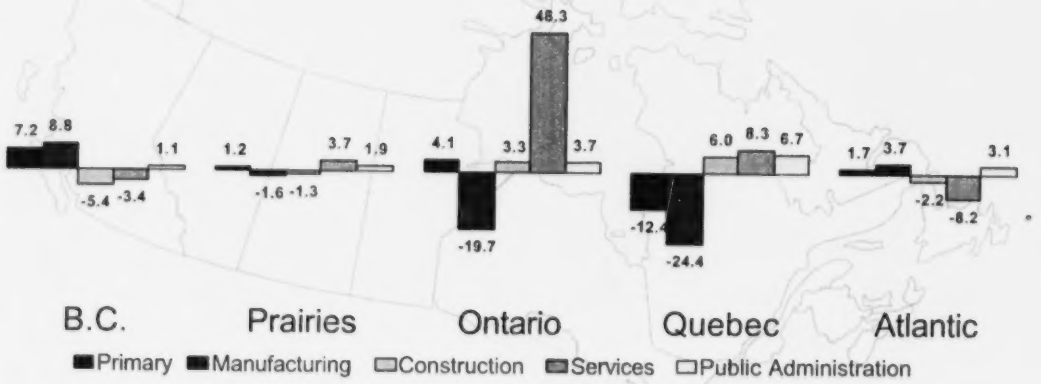


*FIRE: Finance, Insurance, Real Estate and Leasing
Business Services: Management, Administrative, Professional, Scientific & Technical Services
Community Services: Educational Services, Health & Social Assistance.

Source: Statistics Canada

In 2003, gains have been concentrated in Ontario

Job Creation
Thousands
Seasonally adjusted
January - May 2003
Source: Statistics Canada



On a year-to-date basis, manufacturing employment decreased in Quebec (-24,000), Ontario (-20,000) and the Prairies (-2,000). Atlantic Canada and B.C. were the only regions to post manufacturing employment gains. Primary sector employment in Quebec was driven down by losses in agriculture. Construction employment fell in all regions, except Quebec and Ontario.

Year-to-date employment gains in Services were solely due to gains in Ontario, Quebec and the Prairies. Meanwhile, employment in public administration posted gains in all regions.

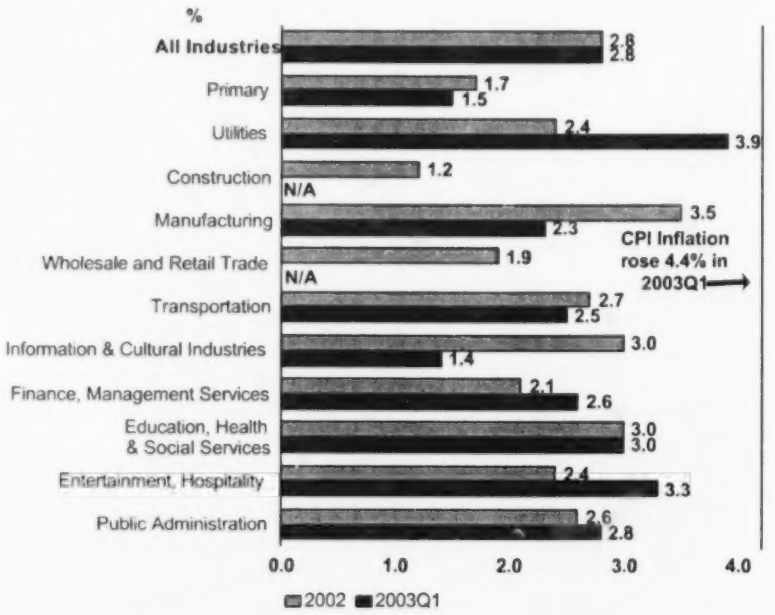
Wage settlements remained unchanged, but real wage declined in the first quarter

Wage settlements averaged 2.8% in the first quarter of 2003. This is down from the 3.3% gain posted in the previous quarter. However, with Consumer Price Index (CPI) inflation averaging 4.4% (mostly due to higher energy prices), real wages declined by 1.6 percentage points.

- **Wage increases were below inflation in all industries.**
- **The Utilities sector posted the highest growth in wage settlements.**

Public-sector wage settlements gains (+2.9%) were above those of the Private sector (+2.3%) in the first quarter.

Wage Settlements by Industry



Effective average annual adjustments in base wage rates from major collective bargaining agreements.

Source: Human Resources Development Canada

Capacity utilization rose slightly in the first quarter

Capacity utilization edged up 0.3 percentage point to 82.8% in the first quarter of 2003. With the exception of a slight decline in the previous quarter, capacity use has been rising continuously from a low of 80.4% in the fourth quarter of 2001.

- **Despite trade measures imposed by the U.S., capacity utilization in the Forestry & Logging sector increased 4.2 percentage points to 83.5%, its highest quarterly rate in more than two years. Capacity use also improved in Oil & Gas Extraction, Electric Power and Construction.**

- **In Manufacturing, capacity utilization remained steady at 84.1%, after a slight decline in the previous quarter. Lower rates were posted in 12 of 21 industry groups with Petroleum & Coal products reporting the largest decline. Driven by a strong housing market, capacity use of wood products manufacturers increased to 99.2%, the highest level on record.**

Capacity Utilization: Non-farm Goods-producing Industries

	Level (%) 2003Q1	Change (% points) Q/Q	Change (% points) Y/Y	10-year Average
Total Industrial	**82.8**	**0.3**	**1.2**	**82.6**
Forestry & logging	83.5	4.2	14.2	80.3
Mining & oil & gas extraction	72.4	0.9	-0.5	78.2
Electric power *	89.1	0.5	1.5	84.2
Construction	84.7	0.6	-0.9	82.3
Total Manufacturing	**84.1**	**0.0**	**1.9**	**83.7**
Food	80.6	-0.1	-1.8	80.7
Beverage & tobacco products	77.4	-0.5	-3.6	80.9
Textile mills	74.4	-0.4	-3.4	81.7**
Textile product mills	77.1	-2.0	0.8	79.3**
Clothing	82.9	-2.3	4.0	82.8
Leather & allied products	67.1	-0.8	-5.6	74.3
Wood products	99.2	0.6	11.5	87.3
Paper	93.5	0.6	7.0	90.3
Printing & related support activities	71.3	1.1	-2.8	77.7
Petroleum and coal products	92.2	-3.0	-4.6	92.6
Chemical	84.2	0.1	5.2	82.5
Plastic & rubber products	89.1	0.5	1.7	84.4
Non-metallic mineral products	89.4	3.3	6.5	79.1
Primary metal	93.6	0.1	4.1	90.5
Fabricated metal products	85.7	1.9	4.0	80.9
Machinery	80.7	-0.9	2.8	81.2
Computer & electronic products	62.7	-2.1	-5.8	79.8
Electrical equipment	73.6	0.8	1.5	83.4
Transportation equipment	88.0	-0.4	0.5	85.9
Furniture & related products	82.1	-0.2	0.7	81.5
Miscellaneous manufacturing	83.6	-0.6	2.8	82.4

* Electric power generation, transmission & distribution
** Represents available data between 1997Q1-2003Q1
Source: Statistics Canada

Domestic Scene

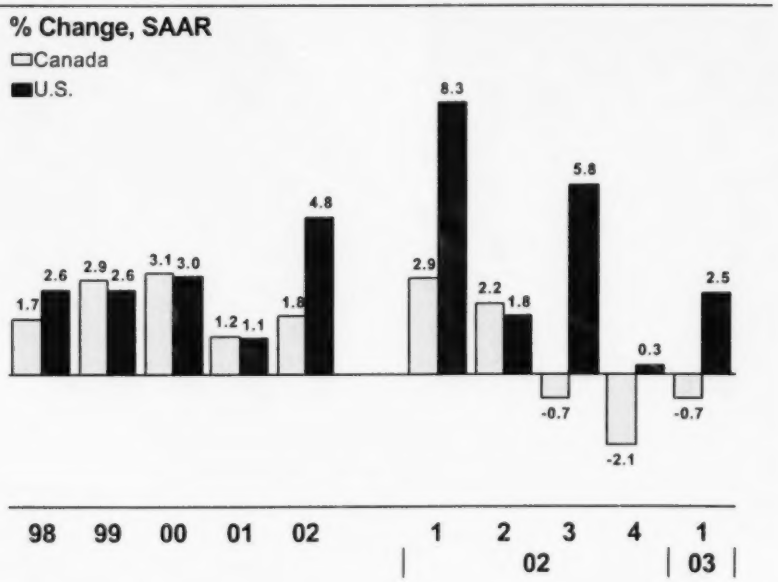
Productivity & Competitiveness

Labour productivity declined...

Business sector labour productivity recorded a third consecutive decline (-0.7% on an annual basis) in the first quarter, as growth in hours worked (2.5%) outpaced output growth (1.9%). This represents the longest series of declines since the recession in the early 1990s.

U.S. labour productivity in the business sector increased 2.5% in the first quarter as output grew (2.0%) and hours worked declined (-0.5%).

Productivity Growth



Source: Industry Canada calculations

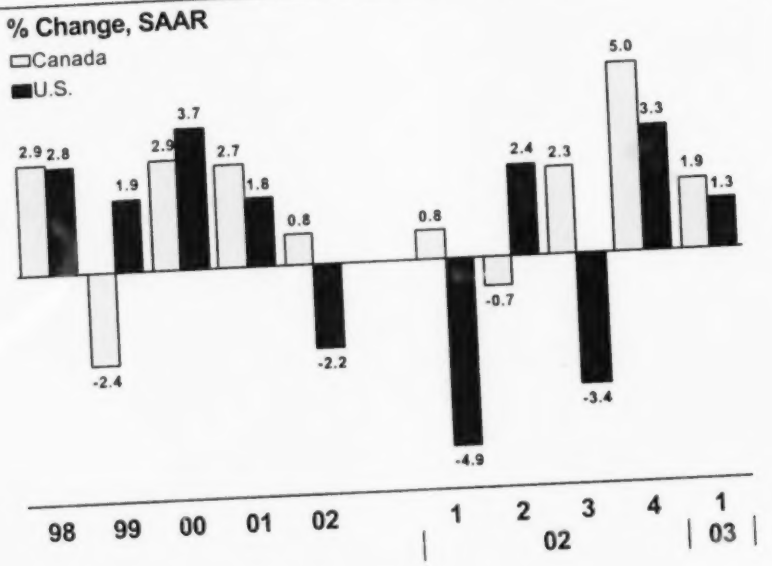
F-1

...increasing unit labour costs...

Unit labour costs of Canadian businesses were up 1.9% in the first quarter as hourly wages increased 1.3% and labour productivity fell.

Meanwhile, unit labour costs in the U.S. rose 1.3% in the first quarter, as hourly compensation increased (3.8%) more than labour productivity (2.5%).

Growth in Unit Labour Costs*



* For the business sector
Source: Statistics Canada, Bureau of Labor Statistics and Industry Canada calculations.

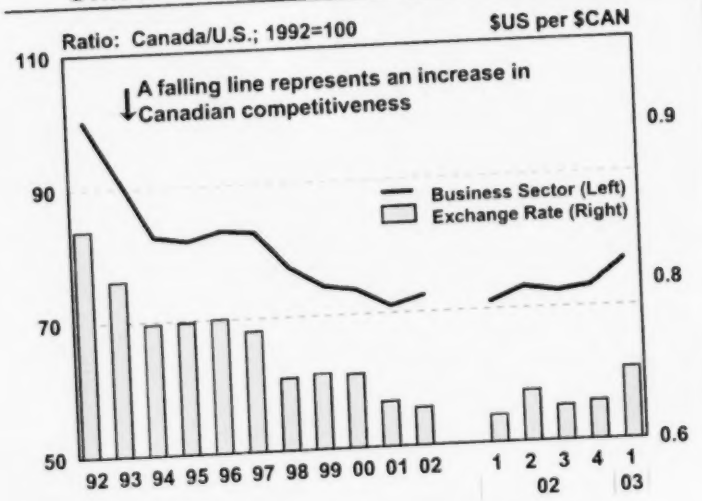
F-2

...and reducing Canadian firms competitiveness

Reflecting the appreciation of the Canadian dollar and declining labour productivity, Canadian businesses competitiveness eroded with respect to their American counterparts during the first quarter.

- **Measured in US dollars, Canadian unit labour costs increased 7.8%, compared with 0.9% in the U.S.**

Unit Labour Cost Comparison ($US)



Source: Industry Canada calculations based on data from the U.S. Bureau of Labor Statistics and Statistics Canada

Domestic Scene

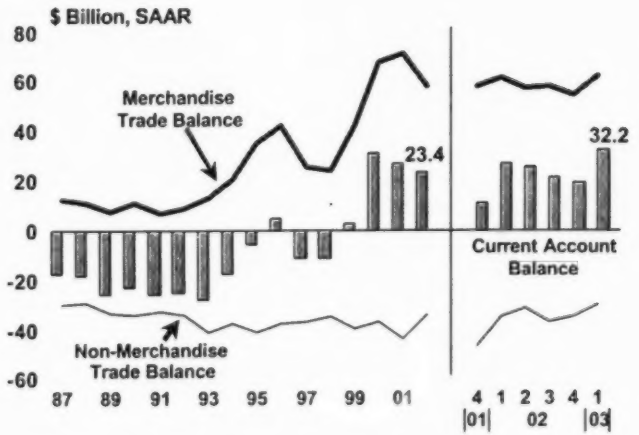
International Accounts

Canada posts the largest current account surplus in seven quarters...

Canada's current account surplus increased by $3.2 billion to $8.0 billion ($32.2 billion annualized) in the first quarter. Exports posted a modest increase while imports decreased, boosting the merchandise trade balance.

In 2002, the surplus in the current account fell to $23.4 billion, from $26.9 billion in 2001. The goods surplus fell $13.1 billion on lower exports and higher imports. The investment income deficit fell from $37.3 billion in 2001 to $27.5 billion in 2002, while the services' deficit edged down $61 million.

Current Account & Trade Balances



The merchandise trade balance represents net exports of goods.

The non-merchandise trade balance represents net exports of services plus net receipts of investment income and transfers.

Source: Statistics Canada

G-1

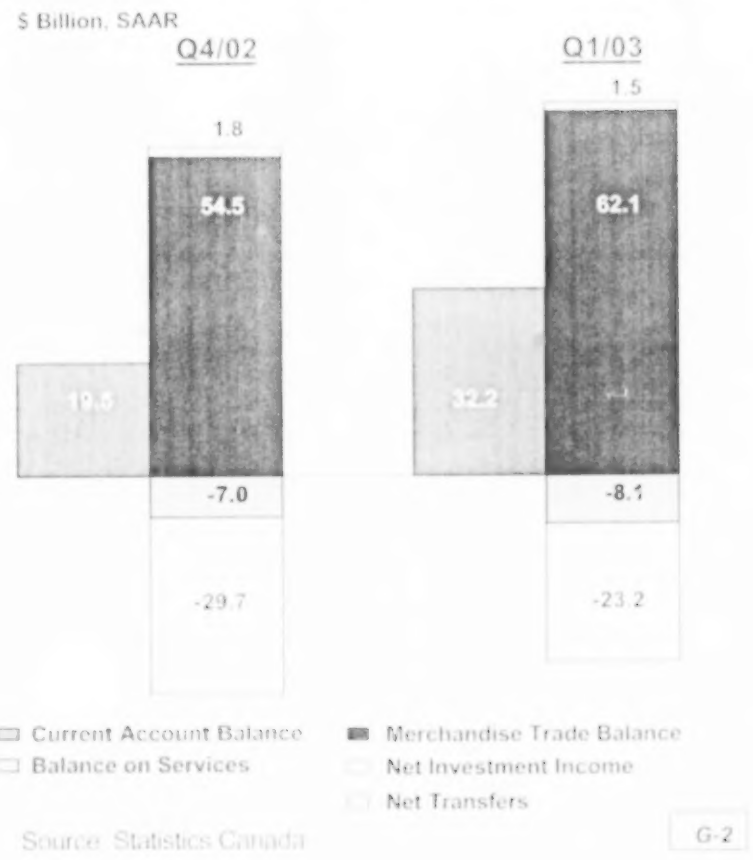
...largely reflecting improvements in merchandise trade and investment income balances

The merchandise trade surplus increased by $1.9 billion to $15.5 billion ($62.1 billion annualized) in the first quarter, as exports rose due to the higher value of energy exports, reflecting higher prices. Meanwhile, imports fell due to lower imports of machinery & equipment and automotive products. However, in April the surplus dropped $1.2 billion, the largest decline since June 2002.

The deficit on investment income decreased by $1.6 billion to $5.8 billion ($23.2 billion annualized), due to a $1.1 billion decrease in the direct investment deficit.

The deficit on services increased by $0.3 billion to $2.0 billion ($8.1 billion annualized) in the first quarter. The increase was due to travel and commercial services, as the deficit of the transportation component decreased.

Main Components of the Current Account



Source: Statistics Canada

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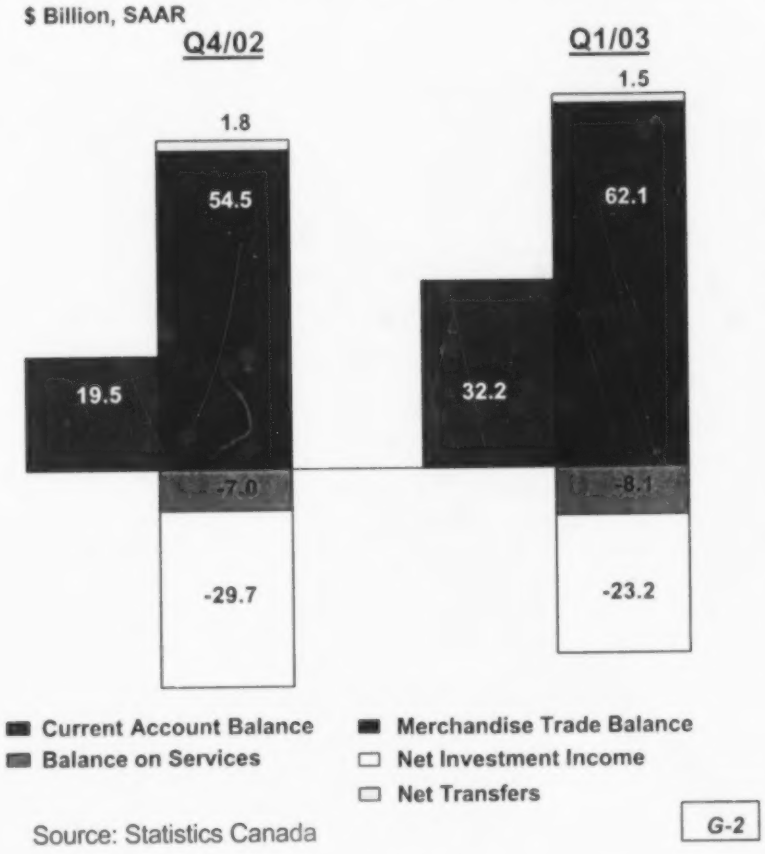


Source: Statistics Canada

G-2

Merchandise exports post a modest increase, with the help of higher energy prices, in the first quarter...

Merchandise exports, posted an increase of 0.6 % in the first quarter. This follows a loss of 1.0% in the fourth quarter.
An increase in export prices, boosted the value of energy exports by $3.1 billion to $17.8 billion. Energy exports more than accounted for the overall increase.

- Exports of automotive products, machinery and equipment, industrial goods, forestry products and agricultural goods declined.

In April, however, exports fell 4.5% to $33.7 billion, the largest decline in more than two years, mostly due to an 18.6% drop in energy exports. Only exports of agricultural & fishing products (+0.6%) increased. Exports to most regions decreased, except for those going to other Organisation for Economic Co-operation and Development (OECD) countries (+7.0%) and Japan (+3.6%).

Merchandise Exports, January to April 2003

	$ Billion	% Change Jan.-Apr./02 - Jan.-Apr./03
Total	138.5	1.8
By Trade Partner		
U.S.	115.3	1.1
Japan	3.6	12.7
EU	8.0	2.6
All Others	11.7	4.8
By Principal Commodity		
Agricultural & Fishing Products	10.0	-3.8
Energy Products	23.2	62.7
Forestry Products	11.4	-11.3
Industrial Goods & Materials	22.4	-3.4
Machinery & Equipment	31.3	-4.1
Automotive Products	29.9	-6.9
Other Consumer Goods	5.8	-1.2

Source: Statistics Canada

...while imports decreased

In the first quarter, merchandise imports were $1.3 billion lower than in the fourth quarter. This follows a decrease of $0.2 billion in the fourth quarter.

- Lower imports of machinery and equipment and automotive products more than offset the higher import values for energy and agricultural products.

In April, merchandise imports decreased (-1.3%), due to declines in machinery & equipment (-3.6%), automotive products (-2.6%), industrial goods & materials (-2.3%) and forestry products (-1.5%). The largest increase was posted by energy products (+6.4%).

Imports from all regions declined, except from other OECD countries (+3.4%). The largest declines were posted by imports from Japan (-8.2%) and the European Union (-4.7%).

Merchandise Imports, January to April 2003

	$ Billion	% Change Jan.-Apr./02 - Jan.-Apr./03
Total	119.5	4.0
By Trade Partner		
U.S.	83.5	0.5
Japan	3.8	-1.0
EU	12.4	10.3
All Others	19.8	18.1
By Principal Commodity		
Agricultural & Fishing Products	7.4	3.9
Energy Products	7.6	63.1
Forestry Products	1.0	2.4
Industrial Goods & Materials	22.8	1.3
Machinery & Equipment	33.8	-2.3
Automotive Products	27.0	3.8
Other Consumer Goods	15.9	6.1

Source: Statistics Canada

In the first quarter, investors favoured bonds

In the first quarter, Canadians invested $24.5 billion abroad and foreigners invested $26.3 billion in Canada.

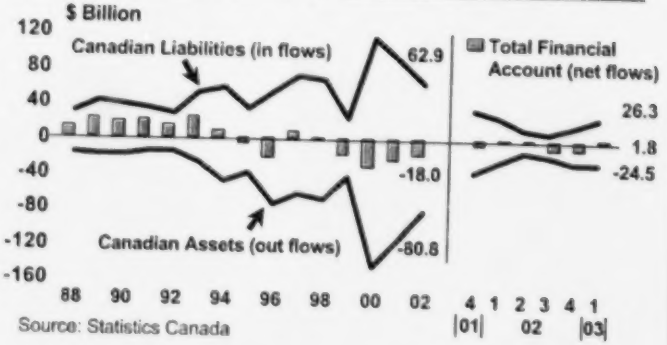
Direct Investment

At $5.6 billion, Canadian direct investment abroad was $10.6 billion lower than in the fourth quarter. Foreign direct investment of $3.1 billion flowed into Canada, following an inflow of $5.6 billion in the fourth quarter. Nearly all of the investment, from both sides of the border, went to existing affiliates for working capital with little going to acquisitions.

Portfolio Investment

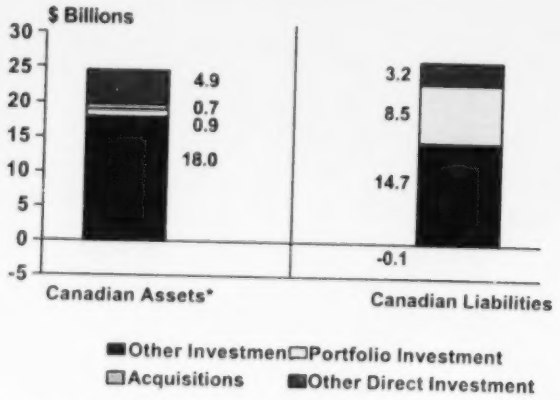
Demand for foreign securities fell, with investors on both sides of the border focussing on bond markets. Canadians invested $3.6 billion in foreign bonds, more than in all of 2002. Sixty percent of these went overseas. Foreign investors bought $9.9 billion of Canadian bonds, mostly Federal Government bonds denominated in Canadian dollars. Foreign portfolio investment in Canadian securities amounted to $8.5 billion, down from $9.3 billion the previous quarter. Canadian investment in foreign securities also fell, from $2.9 billion to $0.9 billion.

Financial Account (Net Flows)



Source: Statistics Canada

Financial Account Components Q1/2003



* Reverse of BOP sign
Source: Statistics Canada

Domestic Scene

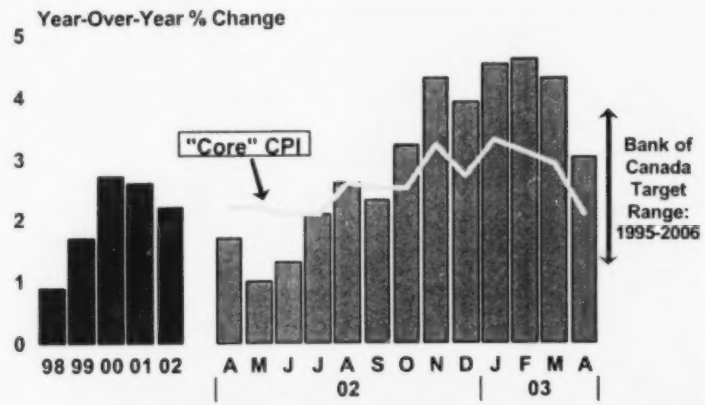
Price Movements

Inflation at a seven-month low...

The year-over-year change in the CPI was 3.0% in April, down from 4.3% in March. This mainly reflected a smaller increase in gasoline prices than in March and a drop in electricity prices caused by a rebate on electricity in Ontario.

"Core" inflation – which excludes the most volatile components of the overall CPI and indirect taxes, and is the target for monetary policy – fell from 2.9% to 2.1%, close to the 2% midpoint of the target range.

Consumer Price Index



In May 2001, Bank of Canada and the Finance Department announced the renewal of the inflation target for monetary policy until 2006. The Bank also refined its measure for the underlying trend in inflation as measured by "core" inflation.

The "Core" CPI excludes prices for: fruit, fruit preparations and nuts; vegetables and vegetable preparations; gasoline; fuel oil; natural gas; mortgage interest; inter-city transportation; and tobacco products. It also excludes the effect of changes in indirect taxes.

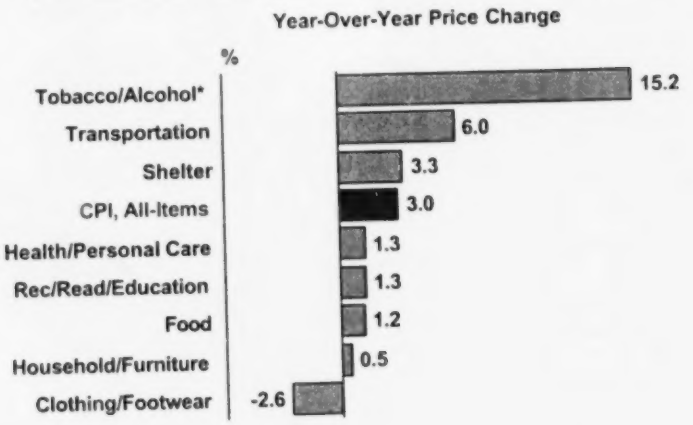
Source: Statistics Canada & Bank of Canada

...as all the major CPI components posted smaller increases than in the previous month

In April, all of the eight major components of inflation posted smaller rises than in March. Beside transportation and shelter, tobacco & alcohol had a large depressing effect.

The tobacco & alcohol index rose sharply between March and July last year as a result of taxes on cigarettes. The large advances have resulted in smaller year-over-year changes in the index this year.

Components of CPI: April 2003



* Increases in provincial and federal sales taxes on cigarettes between November 2001 and July 2002 pushed the Tobacco & Alcohol price index well above its prior level. The year-over-year increase in the index has averaged 16.9% since November 2001 and is now down from its peak of 22.8% in October 2002.

Source: Statistics Canada

The drop in oil prices has tempered raw material and producer prices increases

Industrial product prices – those received by producers at the factory gate – fell by 1.4% from March due to the drop in petroleum prices and a stronger Canadian dollar.*

- **On a year-over-year basis, prices edged down 0.1% in April, following eight year-over-year increases ranging between 0.6% and 2.8%.**

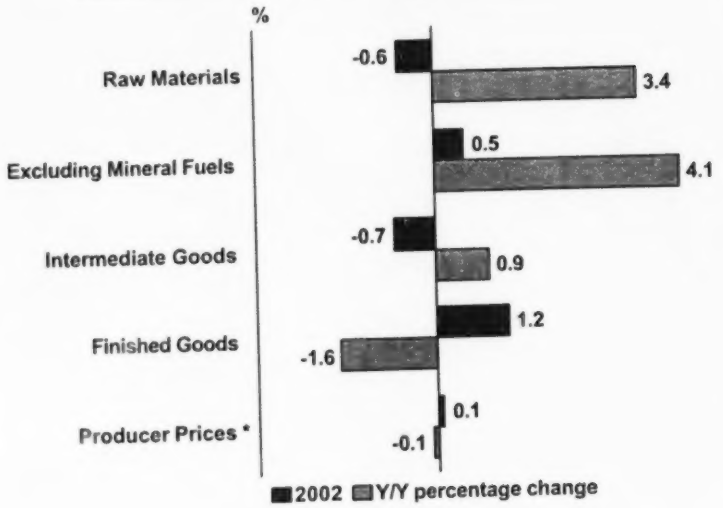
- **Motor vehicle and lumber prices led the year-over-year decline, while petroleum prices were up sharply from last year.**

Raw material prices were down 10.3% from their peak of February, mainly on the drop in crude oil prices.

- **As a result, the year-over-year change was 3.4%, down from an average of 16.6% in the previous six months.**

- **The price index excluding mineral fuels was also down from a peak in February as a result of weaker metal prices.**

Price Chain - April 2003



* The appreciation of the Canadian dollar markedly reduced the prices of Canadian exports quoted in U.S. dollars - particularly, motor vehicles, pulp, paper and wood products - dampening the Industrial Product Price Indexes (IPPI) this month and compared with last year. Excluding the effect of the exchange rate, the IPPI would have declined by 0.8% instead of 1.4% on a month-over-month basis and would have increased by 2.4% instead of declining by 0.1% on a year-over-year basis.

Source: Statistics Canada

Domestic Scene

Financial Variables

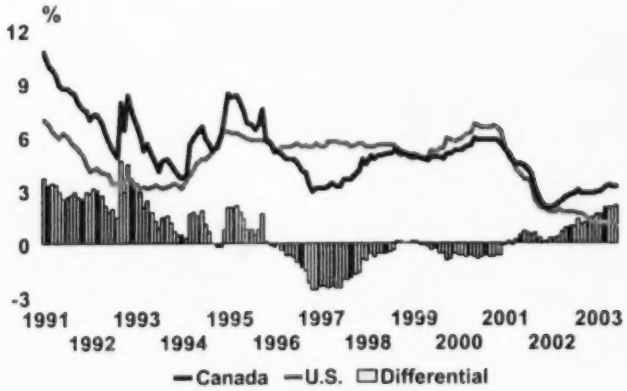
The Bank of Canada kept rates unchanged

The Bank of Canada left its policy rate unchanged on June 3rd because of reduced inflation and softer economic activity as a result of SARS, weak U.S. demand and the appreciation of the Canadian currency. This followed two increases (by a total of 50 basis points (bps)) in March and April. The Bank anticipates inflation to return to its 2% target earlier than expected and has indicated it will closely monitor the contractionary impact of a higher currency on the economy (see box).

After leaving its federal funds rate unchanged at 1.25% on May 6, the Federal Reserve reduced it to 1.0% on June 25. The Federal Reserve alluded to the fact that the economy has yet to exhibit sustainable growth.

The spread between the Canadian 90-day corporate paper rate and its U.S. counterpart was 225 bps on June 11, up from 150 bps at the end of 2002.

Short-Term Interest Rates



Last data point plotted: June 11, 2003

Source: Bank of Canada, 90-day prime corporate paper, last Wednesday in the month
Bank of Canada website

Monetary Conditions Index (MCI)

One of the key monetary variables monitored by the Bank of Canada is the MCI. This index is the weighted sum of changes in short-term interest rates, accounting for two thirds, and changes in the trade-weighted exchange rate between Canada and its six major trading partners, accounting for the remaining one third. With the 90-day commercial paper rate up by about 46 basis points (bps) since December and the C-6 index up 10.8%, the MCI has increased by 4.1 points, indicating a significant reduction in economic stimulus. Over the period, the increase in the exchange rate was responsible for more than 85% of the rise in the MCI.

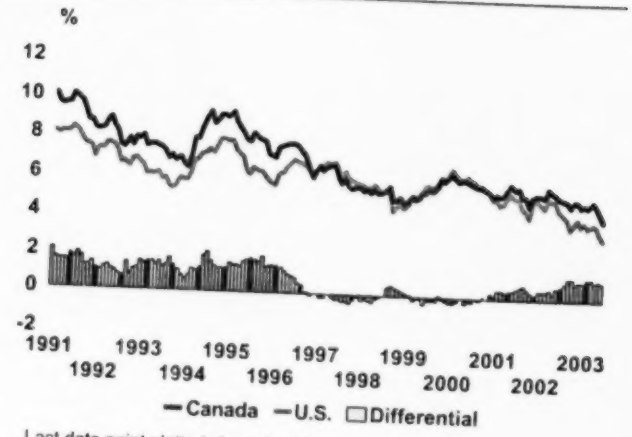
Bond prices increased despite the flow of funds moving back into equities

Long term bond yields have fallen sharply since March on expectations of a slow recovery and a fall in inflation. In the U.S., the prospect of an increase in the fiscal deficit and government borrowing moderated the decline in treasury yields.

- **The 10-year Canadian bond yield dropped to 4.2% on June 11, down more than 100 bps from the high of late March.**

- **The Canada-U.S. 10-year yield differential was 97 bps on June 11 compared with 93 bps at the end of 2002.**

Long-Term Interest Rates



Last data point plotted: June 11, 2003

Source: Bank of Canada, 10-year Government bond, last Wednesday in the month

With uncertainties dissipating, equity markets retraced some of their losses

North American stock market indices have rebounded strongly from their lows of early March. As war-related uncertainties receded in the past months, investors switched some funds into equities showing relatively attractive returns compared with alternative assets.

- **The S&P/TSX index was up more than 800 points (14%) from its March low to 7101 on June 11, while the S&P 500 gained nearly 200 points (25%) to 998.**

Stock Market Indices

Last data point plotted: June 11, 2003

* On May 1st, Canada's main equity index was renamed the Standard & Poor/Toronto Stock Exchange index (S&P/TSX).

Source: Statistics Canada

The Canadian dollar has surged to its highest level since February 1997

The global turn against the U.S. dollar has gathered momentum in past weeks. The loonie rose to US¢74.0 on June 11, up 17% from its US¢63.4 level at the close of 2002.

- **The weakening of the U.S. currency and a higher interest rate spread favouring Canadian assets are largely responsible for the sharp increase. Moreover, the large U.S. current account deficit will continue to weigh heavily on the greenback.**

Canada-U.S. Exchange Rate

Last data point plotted: June 11, 2003

Source: Bank of Canada

Domestic Scene

Fiscal Track

Balanced budget or better expected in 2002-03

In 2001-02 end-of-year adjustments and the impact of full accrual accounting reduced the budget surplus for the April 2001 to March 2002 period from $14.7 billion to $8.2 billion at fiscal year end. Taking these factors into consideration, the results to date are consistent with the expected outcome of a balanced budget or better for 2002-03, as set out in the 2003 budget. Final results for 2002-03 will be released in the fall of 2003.

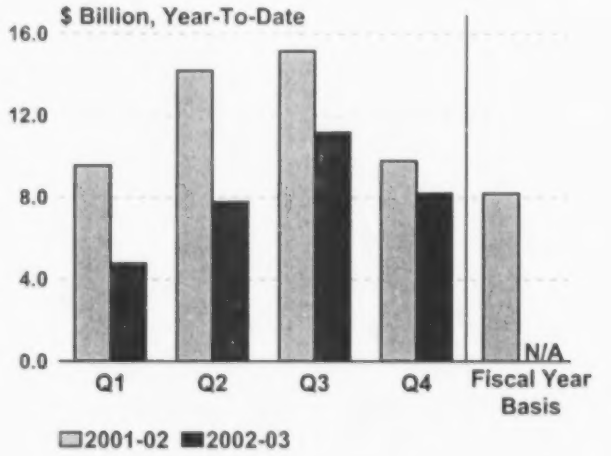
For the April 2002 to March 2003 period, the budgetary surplus was estimated at $10.4 billion, down $4.3 billion from the surplus of $14.7 billion reported for the same period in 2001-02.

- The lower year-over-year surplus is largely attributable to the weak stock market in 2001, resulting in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds and lower final settlement payments, as corporations apply losses experienced in 2001 to taxes paid in previous years or owing in 2002.

Provinces, except B.C., P.E.I. and Nfld & Lab., are expected to record balanced budgets or surpluses in 2002-03. The three territories are expected to post deficits.

*Under full accrual accounting, expenditures and revenues are registered on the basis of their use/economic impact in the year they occur (not on the basis of cash paid/revenue collected). The Government has been moving in that direction since 1999. For more details consult Annex 6 of the Budget Plan 2003 at http://www.fin.gc.ca/budtoce/2003/budliste.htm#plan.

Federal Budgetary Balance



Source: Department of Finance Canada

For Further Information

We welcome your questions, comments and suggestions? You can reach us by ...

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phoning:	(613) 957-3404
or faxing us at:	(613) 952-1936

The *Micro-Economic Monitor* is prepared on a quarterly basis by the Micro-Economic Analysis Directorate of Industry Canada. The Monitor provides a quick and easy-to-read update on Canada's economic performance. It also provides, from time to time, topical in-depth reports on current economic issues from a micro-economic perspective.
This report uses data available as of June 17, 2003.

The current analysis update was prepared by Eric Chalifoux, Stéphane Crépeau, Anik Dufour, Kevin Koch, Joseph Macaluso, Arif Mahmud, Sue Moore, François Poitras, François Rimbaud, and Patrick Taylor under the direction of François Poitras. Translation has been provided by Lucie Larocque and Sue Hopf is responsible for administrative support.

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